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ANGLO AMERICAN CORPORATION OF SOUTH AFRICA LIMITED

Chairman's Statement

1967

Statement by the Chairman
Mr. H. F. Oppenheimer

*Issued by Anglo American Corporation of South Africa Limited, 44 Main Street, Johannesburg,
to be read in conjunction with the Corporation's 50th annual report and accounts*

We have recently suffered grievous loss through the death, in tragic accidents, of three managers of the Corporation. Mr P. D. de Kock was drowned on 11th January, 1967, while on holiday at Plettenberg Bay. He joined the Corporation in 1958, and at the time of his death was the official in the Chairman's office whose chief responsibility was administrative and personnel matters. In addition he acted as secretary to the Executive Committee. In the time he was with us Mr de Kock showed himself to be a man of outstanding ability with a special gift of comprehension and sympathy in personal relations. Mr C. R. Anderson and Mr V. D. Edkins were killed in the air crash near East London on 13th March when travelling on Corporation business. Mr Anderson joined us in 1953 and Mr Edkins in 1946. Both were engaged in the industrial and metal sales side of our business and both had shown unusual powers of initiative and hard work so that they had come to play an indispensable part in the rapid industrial expansion of the Corporation. All three were men of promise as well as achievement and their death has left gaps in our work and in our lives which will not easily be filled.

FINANCIAL RESULTS

The Corporation had another successful year and as you will see from the accounts, consolidated net profits rose by 5.4 per cent to R30.8 million. Ordinary dividends were unchanged at 130 cents per share, and R13.5 million was placed to reserves, compared with R12.5 million in 1965. The value of our investments increased during the year by R70.2 million to the figure of R490.1 million.

The directors' report deals fully with the development of our operations and I do not want to repeat what is said there. I will therefore confine myself to commenting on certain new aspects of our affairs.

In the field of gold mining, the opening-up of the Vaal Reefs South area marks a development of importance. It would not have been economic to exploit this area as a separate mining proposition. By agreeing that it should be mined as a part of the operations of Vaal Reefs Exploration and Mining Company Limited, the Government was in effect accepting a

reduction in the taxation payable by the Vaal Reefs mine over the next few years in order to secure higher gold production and higher tax receipts in the more distant future. Rather similar in principle are the arrangements which have made possible the continued working of Freddie's Consolidated Mines and Free State Saaiplaas through agreements in terms of which these low-grade mines are enabled to treat high-grade ore from their richer neighbours together with the ore from their own properties. It may well be that it is through the negotiation of special arrangements of this sort that the Government will best be able to encourage the expansion and development of the gold mining industry which is so vital to the future of the South African economy.

There has been a marked revival in the demand for uranium and there is good reason to think that this demand may increase further in the years ahead. Promising research work is being carried on, aimed at making possible the economic recovery of uranium from ores which at present are too low-grade to work. If successful, this would considerably increase productive capacity and improve South Africa's position in the uranium market. It is likely that uranium may, in many cases, become a co-product rather than a by-product of gold mining, or indeed be mined on its own. It seems to me that in the new circumstances our marketing techniques in what is a highly competitive business may require modification.

THE DIAMOND INDUSTRY

The diamond trade achieved new records in 1966 and though the demand for gem diamonds has recently fallen off to some extent, sales are certainly satisfactory and the likelihood is that 1967 will again be a good year. An agreement has been reached between De Beers Consolidated Mines Limited and the General Electric Company of New York which brings to an end complicated and expensive disputes between the two companies in regard to their patent rights affecting the production and marketing of synthetic industrial diamonds. De Beers subsequently acquired a 50 per cent interest in a new Swedish company formed by Allmänna Svenska Elektriska

Aktiebolaget (ASEA) to take over its plant for the manufacture of synthetic diamond grit. De Beers was able to sublicense the new company to make use of the General Electric patents, and by so doing long-standing patent disputes between ASEA and General Electric were also brought to an end. These agreements open the way to the further development of what is already an important industrial business. The potential consumption of diamond grit is likely to be far in excess of the production of natural diamond of this quality, and the settlement of these patent disputes was necessary to allow De Beers to take its proper share in this promising new field.

ZAMBIA

Our activities in Zambia have been carried on under considerable difficulties during the year. The strains and stresses inseparable from the emergence of a new country, accompanied as this must be by a tremendous pressure for the improvement of social and economic conditions, have in Zambia's case been greatly magnified as a result of the U.D.I. crisis in Rhodesia. It would in any case have been natural and was to have been expected that Zambia should wish to decrease its dependence on Rhodesian transport routes and Rhodesian supplies. In the present circumstances, however, a quite exceptional urgency has attached to these objectives. Moreover, the natural desire to diversify the economy, which remains excessively dependent on the major industry of copper mining, has also been intensified by political factors, and a most ambitious development programme has been accepted by the Government.

The policy of Zambianization in the mining industry, with which we sympathize and which we have been doing our utmost to promote, has inevitably caused problems which have been reflected in a deterioration in efficiency and industrial discipline. The Government, however, has shown itself fully conscious of the need to improve discipline and productivity, and with its support we are hopeful that these difficulties can be overcome. There was a great deal of industrial unrest during the year, and as a result the Government appointed a commission to

inquire into all aspects of labour relations. The commission recommended very substantial wage increases which had to be implemented at a time when efficiency was low and production was disrupted by fuel shortages, and thus contributed to the rapid rise in production costs. Generally speaking, the inflationary pressure in the country is severe and it is probably correct to say that the costs of erecting a building or industrial plant in Zambia are today almost twice what they are in South Africa.

This cost inflation is particularly serious in view of the major expansion programme that we are now planning. Anglo American Corporation's new Torco process for treating refractory copper ores may make possible an increase in copper production of the order of 100,000 tons a year by our Group alone. We are determined, by continued investment and by careful attention to technical and administrative efficiency, to do our best to play a useful part in the national economic development. It is necessary, however, to sound a note of warning. Zambia faces special difficulties and the desire for diversification and a rapid approach to full economic independence, to match the political independence that has already been achieved, is surely understandable and deserves our sympathy. Nevertheless, we must face the fact that the adoption of social and economic development programmes that outrun the material and human resources available can be self-defeating and might seriously weaken the competitive position of the major export industry of copper mining on which the prosperity of the country must rest for many years ahead.

RHODESIA

Our activities in Rhodesia are carried on in the shadow of the long-drawn-out U.D.I. crisis and the British sanctions policy, which is being increasingly tightly enforced. Nevertheless, the Rhodesian end of our Group is continuing to develop, and in particular is busy with an important expansion programme at the property of Trojan Nickel Mine (Private) Limited, in which the Group has acquired an 85 per cent interest. Whatever the rights or wrongs of the U.D.I. dispute, I cannot believe that either British interests

or the interests of any of the Rhodesian peoples will be advanced by destroying the Rhodesian economy. The sanctions policy might perhaps have been justified had it produced, as the British Government apparently supposed it would, rapid political results. It might not have done much harm if, as the Rhodesian Government apparently supposed, it had rapidly proved a failure and been abandoned. As it is, we have in Rhodesia the worst of both worlds: the Rhodesian economy is being slowly throttled, and no political result favourable to British interests is being obtained.

It seems deplorable that this state of affairs should be allowed to continue when at the 'Tiger' talks agreement was reached between the British and Rhodesian prime ministers on a constitution for an independent Rhodesia. The way in which the return to legality should be effected in Rhodesia is certainly an important matter but the agreement reached on the constitution is surely much more important. Since the 'Tiger' talks, threats and promises have been made and speeches delivered, both in Britain and Rhodesia, which no doubt make it difficult for discussions to be renewed between the British and Rhodesian Governments without loss of face to someone. However, as that very wise man General Smuts said: 'After a foolish speech the only thing is wise action', and wise action in this case is, I believe, the earliest possible resumption of negotiations for the independence of Rhodesia on the basis of the constitution which was worked out in the 'Tiger' talks and accepted by both parties to the dispute.

FINANCE FOR HIGHVELD

In my statement last year I referred to the bond issue of 100 million Deutsche marks (R17,850,000) made by a syndicate of European banks under the leadership of the Deutsche Bank on behalf of Highveld Steel and Vanadium Corporation Limited. This was the first stage in the implementation of an agreement with the Union Bank of Switzerland for the raising in Europe of R40 million for Highveld, of which about R30 million was to be in long-term and R10 million in medium-term loans. Arrangements

have recently been completed for the issue of a U.S. \$20 million (R14.3 million) long-term loan for Highveld by a similar syndicate of European banks, managed on this occasion by Banque de Paris et des Pays-Bas, Banca Commerciale Italiana, the Deutsche Bank and N. M. Rothschild and Sons. This will complete Highveld's long-term loan financing under our arrangements with the Union Bank. Construction at the Highveld property is proceeding according to plan and recently it was felt that the time had come to interest certain other mining and finance institutions in the project. Accordingly the issued capital has been raised to 14,455,285 shares by the placing at a premium of 4,453,125 shares, of which almost half have been taken up by Newmont Mining Corporation, of Delaware, U.S.A., and the balance by several important mining and financial institutions in South Africa. Further equity financing this year will be by way of rights issues to shareholders. The present intention is that in 1968, when the first production stage is reached, an offer of shares in the Highveld company should be made to the South African public.

Our interests outside South Africa have expanded during the year. The directors' report makes reference to three important developments: the establishment by Charter Consolidated Limited of a copper mine at Akjoujt in Mauritania; the formation of Anglo American Corporation of Canada Limited to handle and enlarge the Canadian interests of the Anglo American Corporation, De Beers and Charter Consolidated groups; and the formation in Luxembourg of a new company, Boart International Luxembourg SAH, to consolidate and develop the rapidly growing foreign interests of Boart and Hard Metal Products S.A. Limited.

NORTH AMERICA

Recently we have concluded arrangements with Mr C. W. Engelhard to increase our activities in the United States in co-operation with his group. Certain of our associated companies have for some years held small interests in Engelhard Hanovia Incorporated, a United States company controlled by Mr Engelhard,

which in turn has a majority shareholding in Engelhard Industries Incorporated, an industrial company well known in the precious metals field. Reciprocally, Engelhard Hanovia had acquired minority interests in various companies of our Group. Our relationship with the Engelhard group has now been expanded through the acquisition by Anglo American Corporation, in conjunction with associated companies, of further shares in Engelhard Hanovia, so that we now have a substantial minority interest in that company. Mr Engelhard will work for the development of our United States interests in co-operation with his own, and we expect that our closer association will be mutually beneficial. Taken together with the launching of Anglo American Corporation of Canada, we have good reason to be pleased with this strengthening of our interests in North America.

THE SOUTH AFRICAN ECONOMY

I referred last year to the inflationary situation in the South African economy which began to develop in the last quarter of 1964. In spite of the efforts of the Government these tendencies have persisted up to the present time, perhaps because, until very recently anyhow, the Government's anti-inflationary policy has been largely confined to the private sector of the economy, while State expenditures have been allowed to continue largely unchecked. There is a habit of thought in South Africa which regards, or anyhow represents, the inflationary situation, and the credit squeeze that has now become necessary on account of it, as the inevitable price that must be paid for rapid growth. The fact is of course that inflation is not caused by rapid growth, but by failure of real growth to keep pace with the increase of money in circulation. With too much money chasing too few goods, the Government has tended to prefer direct controls rather than control through market mechanisms, with results which, to my view, have not been favourable.

South Africa's fundamental need, if we are to achieve rapid growth and avoid inflation, is to improve productive efficiency, something which can be done by making better use of the non-European

workers in industry. I do not think there can be any doubt that by better training and improved management techniques, the average efficiency of these workers could over the years be very substantially increased. Fortunately there is now some reason to hope that South Africa's economy may emerge before long from the difficulties of the past two years. The Government appears to be showing real determination to combat inflation by credit control, fiscal measures and the relaxation of import control. These developments may in some of their immediate effects be uncomfortable but in the long term they give good grounds for optimism. Moreover there are clear signs of the growing realization by skilled workers that the possibility of improving their living standards is linked to productive efficiency, which in the South African situation implies improved use of non-European labour. In this regard the recent settlements providing for improvements in both productivity and earnings on the gold and coal mines are particularly welcome, and I should like to congratulate the representatives of the employers and the unions on the successful outcome of what have been long and difficult negotiations.

I now want to refer to the steps taken by the Prime Minister to establish friendly relations with the new independent African states of Lesotho, Botswana and Malawi. It has always been South African Government policy to adopt a good-neighbour attitude to other African states. Until recently, however, it has not been found possible to implement this policy in a practical form. Mr Vorster deserves the thanks of all South Africans for his initiative in this respect. I hope that what has taken place will be the beginning only, and that understanding will grow between South Africa and all the new independent states that have emerged on the African continent. Obviously a group such as ours, which operates in many parts of Africa, concentrating not on the differences between the African states but on their common need to raise the standard of living of their people, must look on these developments with particular satisfaction.

Dr M. H. de Kock, who joined our board in 1964, brought to the Corporation a wide knowledge of the

South African economy. We are sorry that he decided to resign last month because he wished to reduce his many commitments outside Cape Town, where he now lives, and we are grateful for the services he has rendered during his period of office.

In December we had much pleasure in appointing to our executive committee Mr C. W. Engelhard, Mr G. C. Fletcher, who has for many years been closely concerned with our financial affairs, and Mr G. W. H. Relly, who is responsible for the Group's activities in Zambia.


This year we are celebrating the 50th anniversary

of the foundation of the Corporation by my father in 1917. At times during those fifty years we have faced grave difficulties and disappointments. We have had our fair share of luck too, and have been able to build the Corporation up to a position of great solidity and strength. I think I can fairly say of our organization that we have learned from our mistakes and have retained our zest for life and for change. I hope and believe that we shall continue to learn and to improve and that such successes as we achieve will be valued not only for themselves but for the opportunities they open up to us for further expansion and growth.

A handwritten signature in dark ink, appearing to read 'M. G. ...', with a stylized, flowing script.

Chairman

JOHANNESBURG
3rd May, 1967



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